PG – 785

IV Semester M.B.A. Degree Examination, July/August 2014
(2007-08 Scheme)
MANAGEMENT
F-4 : International Financial Management

Time : 3 Hours Max. Marks : 75

Instruction : *Answer **all** the sections.*

SECTION – A

1. Answer **any six** sub questions, **each** question carries **two** marks. **(6×2=12)**
   a) What is Translation exposure ?
   b) State any four hedging instruments.
   c) What do you mean by TT buying and TT selling ?
   d) What is covered Interest rate Arbitrage ?
   e) What is Pip ?
   f) What is plain vanilla currency swap ?
   g) State the advantages of IFM.
   h) The spot rate of $ is 140 ¥. The inflation rate in Japan is 4%, while it is 8% in US. What would be the $ rate in terms of ¥ one year hence ?

SECTION – B

Answer **any three** questions from the following, **each** question carries **eight** marks. **(3×8=24)**

2. Explain the features of future market.
3. Is devaluation good for exports and imports? Why is the impact of devaluation usually not immediate ? Explain.
4. a) Spot rate is ₹ 54.50/ $. Three months forward rate is ₹ 54.30/ $. Speculator's own estimate is that the future spot rates after three months should be ₹ 54.10/ $. Will the speculator go for a forward contract if he has $10,000 at his disposal.
   b) An American exporter exporting goods to UK fears a depreciation of £. £ options are available at a strike price of $ 1.884/ £ with a premium of $ 0.03/ £. The spot rate on the maturity falls to $ 1.824/£. How will he compensate his loss ?

P.T.O.

5. You have called your foreign exchange trader and asked for quotations on the spot, 1 month, 3 months and six months. The trader has responded with the following S value, on April 2013. 1.5710/1.5810,65/44,145/123, 290/222.

   a) Determine the outright quotations for the pound sterling.

   b) Was the pound sterling at a forward premium or discount on that date ? Calculate the forward premium or discount.

   c) How many US $ would it cost you to buy £ 10,00,000 on April 30, 2013 Spot price ?

   d) If you wanted to purchase Spot US $, how much would have to pay in £ ?

6. Gold Ltd. is wholly owned subsidiary of British based company. Following is the Non-consolidated balance sheets of both Platinum Ltd. a parent company and Gold a subsidiary.

Assets	**Platinum (GBP)**	**Gold (INR)**	**Liabilities**	**Platinum (GBP)**	**Gold (INR)**
Plant and Machinery	5,000	1,25,000	Equity	4,500	1,00,000
Investments	3,000	_	Retained earnings	1,850	48,000
Cash	1,100	18,000	Long term loan	4,000	35,000
Stock	1,500	45,000	Payables	1,500	25,000
Receivables	1,250	20,000			
Total	**11,850**	**2,08,000**	**Total**	**11,850**	**2,08,000**

The historical rate applicable for assets and liabilities is ₹ 75,75 and the current spot rate is ₹ 83.85. Prepare a consolidated B/S by assuming monetary and Non-monetary method of transaction.

SECTION – C

Answer **any two** of the following, **each** question carries **twelve** marks. **(2×12=24)**

7. What do you mean by Depository receipt ? And also explain the mechanism of depository receipt. What are its advantages ?

8. Currency exchange rates and euro currency interest rates are as follows ;

   Current Singapore Dollar (S $) spot rate $ 0.55/S$, 1 year Singapore Dollar (S$) forward rate $ 0.56/S$, 1 year Singapore Dollar (S$) interest rate 4.5%, 1 year US interest rate 6.5%

   In what direction will covered interest arbitrage force the quoted rates to change ?

   Explain the steps and complete the profit based on a $ 1 million initial position.

9. Indian importer imports goods worth US $ 1,000 from USA and it has to make payments after 90 days. The importing firm is expecting changes in the exchange rate, So it thinks about selecting a particular alternative.
   i) Spot rate in ₹ 58/ $
   ii) 90 days forward rate is ₹ 56/ $
   iii) Interest rate on borrowing in India is 6% p.a.
   iv) Interest rate on deposit in USA is 5% p.a.
   v) A 90 days call option is having a strike price of ₹ 49.60 and a premium of ₹ 0.05/ $
   vi) A 90 days put option is having exercise price of ₹ 49.80 and a premium of ₹ 0.05/ $
   vii) Spot rate on the 90th day is ₹ 50.10/ $. Evaluate each method of payment.

SECTION – D

10. Case study **(Compulsory).** **(15x1=15)**

A UK Multinational wants to evaluate the PV of a loan denominated in Australian dollars. It prefers to evaluate the Australian dollar debt using the typical decentralized technique, in which the Australian dollar cash flows are discounted and then converted to US $ at the prevailing Spot rate. The spot exchange rate is currently 3.15 A $/£ .The firm is considering four year debt in the amount of A$ 10,500,000 at an interest rate of 15%. The loan structure provides for payment of interest repayment of all principal in one lumpsum 4 years from now. The corporation tax rate is 24%, and the firm will be able to realize all benefits of the tax related debt shield. The cost of borrowing for the firm in US $ is 10.5%. The risk free interest rate in the UK is 10%. and the risk free parity rate in Australia is 15.5%. If the firm decides to use uncovered interest parity to form expectations of future spot exchange rates. Calculate the four year ahead forecast.

a) What is the PV of the Australian dollar financing, using the decentralised technique ?

b) Instead of using the decentralised technique, the firm is considering a centralized technique, in which the Australian $ cash flow are converted to UK £ and subsequently discounted at the UK £ cost of debt. If the firm uses uncovered interest parity in the risk free deposit markets to forecast future exchange rates. What is the PV of the loan calculated to be ? Explain your reasoning.